

ALTA MUNICIPAL UTILITIES  
INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

DECEMBER 31, 2008

ALTA MUNICIPAL UTILITIES

ALTA, IOWA

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ALTA MUNICIPAL UTILITIES

ALTA, IOWA

OFFICIALS

| <u>Name</u>     | <u>Title</u> | <u>Term Expires</u> |
|-----------------|--------------|---------------------|
| Kevin Walsh     | Trustee      | June 2009           |
| Jeff James      | Trustee      | June 2010           |
| Ron Gullickson  | Trustee      | June 2011           |
| Dennis Weber    | Trustee      | June 2012           |
| C. Alan Wadsley | Trustee      | June 2014           |

HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.  
KEITH C. GERMANN, C.P.A.  
RICHARD R. MOORE, C.P.A.  
WESLEY E. STILLE, C.P.A. (RETIRED)  
KENNETH A. PUTZIER, C.P.A. (RETIRED)  
W.J. HUNZELMAN, C.P.A. 1921-1997

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Alta Municipal Utilities  
Alta, Iowa

We have audited the accompanying balance sheet of Alta Municipal Utilities, a component unit of City of Alta, as of and for the year ended December 31, 2008, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alta Municipal Utilities as of December 31, 2008, and the respective changes in its financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The Utility has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2009, on our consideration of Alta Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 18 and 19 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

July 14, 2009

*Hunzelman, Putzier & Co.*

ALTA MUNICIPAL UTILITIES  
BALANCE SHEET  
DECEMBER 31, 2008

Exhibit A

ASSETS

CAPITAL ASSETS

|                          |                  |
|--------------------------|------------------|
| Plant in service         | \$ 8,951,572     |
| Accumulated depreciation | <u>4,788,758</u> |
| Net plant in service     | 4,162,814        |
| Land                     | <u>70,913</u>    |
| Total net utility plant  | <u>4,233,727</u> |

CURRENT ASSETS

Unrestricted:

|                               |         |
|-------------------------------|---------|
| Cash and cash equivalents     | 206,921 |
| Temporary cash investments    | 535,000 |
| Accounts receivable           | 241,352 |
| Joint use contract receivable | 650,000 |
| Inventories                   | 97,309  |
| Accrued interest receivable   | 1,801   |
| Prepaid expenses              | 19,716  |

Restricted:

|                      |                  |
|----------------------|------------------|
| Bond sinking fund    | <u>24,962</u>    |
| Total current assets | <u>1,777,061</u> |

OTHER ASSETS

Unrestricted:

|   |        |
|---|--------|
| Non-utility property – net of accumulated depreciation    | 14,642 |
| Land held for investment                                  | 14,196 |
| Plant acquisition costs – net of amortization of \$53,439 | 8,861  |
| Deferred patronage refund receivable                      | 20,442 |
| Bond issuance costs – net of amortization of \$9,743      | 29,456 |

Restricted:

|   |                |
|---|----------------|
| Bond improvement fund                                 | 200,000        |
| Bond reserve fund                                     | 194,916        |
| NIMECA – Emissions account                            | 1,789          |
| Common transmission system – capital improvement fund | <u>93,611</u>  |
| Total other assets                                    | <u>577,913</u> |

DEFERRED DEBITS

13,713

Total assets

\$ 6,602,414

(Continued)

ALTA MUNICIPAL UTILITIES  
BALANCE SHEET  
DECEMBER 31, 2008

Exhibit A  
(Continued)

LIABILITIES AND NET ASSETS

CURRENT AND ACCRUED LIABILITIES

|                                       |                |
|---------------------------------------|----------------|
| Current maturities of revenue bonds   | \$ 185,000     |
| Accounts payable                      | 67,922         |
| Customer deposits                     | 37,931         |
| Other current and accrued liabilities | <u>73,584</u>  |
| Total current and accrued liabilities | <u>364,437</u> |

LONG-TERM DEBT, LESS CURRENT MATURITIES

|                              |                  |
|------------------------------|------------------|
| Electric revenue bonds - net | <u>2,511,648</u> |
|------------------------------|------------------|

NET ASSETS

|   |                  |
|---|------------------|
| Invested in capital assets, net of related debt | 1,488,727        |
| Restricted                                      | 515,278          |
| Unrestricted                                    | <u>1,722,324</u> |
| Total net assets                                | <u>3,726,329</u> |

|                                  |                     |
|----------------------------------|---------------------|
| Total liabilities and net assets | <u>\$ 6,602,414</u> |
|----------------------------------|---------------------|

The accompanying notes are an integral part of this statement.

ALTA MUNICIPAL UTILITIES  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2008

Exhibit B

|   | <u>Light Plant</u> | <u>Water Plant</u> | <u>Total</u>     |
|---|--------------------|--------------------|------------------|
| <u>OPERATING REVENUE</u>                  |                    |                    |                  |
| Sales to consumers                        | \$ 1,123,739       | \$ 294,011         | \$ 1,417,750     |
| Penalties and service fees                | 10,720             | 913                | 11,633           |
| Tax revenues                              | -                  | 6,658              | 6,658            |
| Joint use revenue                         | 80,000             | -                  | 80,000           |
| Fiber lease                               | 7,000              | -                  | 7,000            |
| Miscellaneous                             | 12,364             | -                  | 12,364           |
| Total operating revenues                  | <u>1,233,823</u>   | <u>301,582</u>     | <u>1,535,405</u> |
| <u>OPERATING EXPENSES</u>                 |                    |                    |                  |
| Purchased power                           | <u>242,417</u>     | <u>-</u>           | <u>242,417</u>   |
| Local plant operations:                   |                    |                    |                  |
| Depreciation and amortization             | 50,284             | 73,209             | 123,493          |
| Supplies and chemicals                    | 27,430             | 30,141             | 57,571           |
| Wages and benefits                        | 13,331             | 16,047             | 29,378           |
| Utilities                                 | 7,831              | 37,986             | 45,817           |
| Fuel and oil                              | 7,255              | 919                | 8,174            |
| Other                                     | 2,058              | 2,423              | 4,481            |
| Total operating expenses                  | <u>108,189</u>     | <u>160,725</u>     | <u>268,914</u>   |
| Generating expense – Walter Scott 4:      |                    |                    |                  |
| Fuel                                      | 66,926             | -                  | 66,926           |
| Generation – operation/maintenance        | 57,658             | -                  | 57,658           |
| Transmission – operation/maintenance      | 190                | -                  | 190              |
| Depreciation                              | 43,851             | -                  | 43,851           |
| Property taxes                            | 3,507              | -                  | 3,507            |
| Other                                     | 14,064             | -                  | 14,064           |
| Total generating plant – Walter Scott 4   | <u>186,196</u>     | <u>-</u>           | <u>186,196</u>   |
| Distribution expenses – electric:         |                    |                    |                  |
| Wages and benefits                        | 24,737             | 20,884             | 45,621           |
| Depreciation                              | 18,199             | 5,820              | 24,019           |
| Other                                     | 598                | 228                | 826              |
| Total electric distribution expenses      | <u>43,534</u>      | <u>26,932</u>      | <u>70,466</u>    |
| Distribution expenses – communications:   |                    |                    |                  |
| Wages and benefits                        | 1,274              | -                  | 1,274            |
| Supplies                                  | -                  | -                  | -                |
| Maintenance and repairs                   | 2,298              | -                  | 2,298            |
| Property taxes                            | 10,202             | -                  | 10,202           |
| Depreciation                              | 154,335            | -                  | 154,335          |
| Total communications distribution expense | <u>168,109</u>     | <u>-</u>           | <u>168,109</u>   |

(Continued)

ALTA MUNICIPAL UTILITIES  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2008

Exhibit B  
(Continued)

|   | <u>Light Plant</u>  | <u>Water Plant</u> | <u>Total</u>        |
|---|---------------------|--------------------|---------------------|
| Maintenance expenses:                     |                     |                    |                     |
| Wages and benefits                        | \$ 21,215           | \$ 19,846          | \$ 41,061           |
| Testing and supplies                      | 15,270              | 16,397             | 31,667              |
| Depreciation                              | 4,631               | 2,919              | 7,550               |
| Other                                     | <u>16,352</u>       | <u>1,356</u>       | <u>17,708</u>       |
| Total maintenance expenses                | <u>57,468</u>       | <u>40,518</u>      | <u>97,986</u>       |
| General and administrative expenses:      |                     |                    |                     |
| Salaries and wages                        | 69,013              | 42,921             | 111,934             |
| Office supplies and postage               | 4,832               | 4,914              | 9,746               |
| Depreciation                              | 2,982               | 2,070              | 5,052               |
| Insurance – employees                     | 17,190              | 11,867             | 29,057              |
| Insurance – general                       | 8,076               | 5,816              | 13,892              |
| Professional fees                         | 12,270              | 5,156              | 17,426              |
| Dues and subscriptions                    | 2,548               | 784                | 3,332               |
| Advertising                               | 756                 | 71                 | 827                 |
| Meeting and travel                        | 639                 | 347                | 986                 |
| Technical support                         | 1,237               | 1,160              | 2,397               |
| Telephone                                 | 1,603               | 1,133              | 2,736               |
| Energy conservation and efficiency        | 2,855               | -                  | 2,855               |
| Donations                                 | 6,125               | -                  | 6,125               |
| Bad debts (recoveries)                    | (1,281)             | -                  | (1,281)             |
| Other expenses                            | <u>1,870</u>        | <u>3,826</u>       | <u>5,696</u>        |
| Total general and administrative expenses | <u>130,715</u>      | <u>80,065</u>      | <u>210,780</u>      |
| Total operating expenses                  | <u>936,628</u>      | <u>308,240</u>     | <u>1,244,868</u>    |
| Operating income (loss)                   | <u>297,195</u>      | <u>(6,658)</u>     | <u>290,537</u>      |
| <u>NON-OPERATING REVENUE AND EXPENSE</u>  |                     |                    |                     |
| Revenues from merchandising               | 5,245               | -                  | 5,245               |
| Cost of merchandising                     | <u>9,951</u>        | <u>-</u>           | <u>9,951</u>        |
| Gross loss                                | (4,706)             | -                  | (4,706)             |
| Interest earned on investments            | 102,114             | -                  | 102,114             |
| Interest expense                          | (213,378)           | -                  | (213,378)           |
| Amortization of bond issue costs          | (3,226)             | -                  | (3,226)             |
| Deferred patronage allocations            | <u>2,412</u>        | <u>-</u>           | <u>2,412</u>        |
| Non-operating loss                        | <u>(116,784)</u>    | <u>-</u>           | <u>(116,784)</u>    |
| Change in net assets                      | 180,411             | (6,658)            | 173,753             |
| Net assets, beginning of year             | 2,942,325           | 902,638            | 3,844,963           |
| Less: Residual equity transfer to City    | <u>(292,387)</u>    | <u>-</u>           | <u>(292,387)</u>    |
| Net assets, end of year                   | <u>\$ 2,830,349</u> | <u>\$ 895,980</u>  | <u>\$ 3,726,329</u> |

The accompanying notes are an integral part of this statement.



ALTA MUNICIPAL UTILITIES  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2008

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES:

|   |                |
|---|----------------|
| Cash received from customers                  | \$ 1,420,769   |
| Cash paid to suppliers for goods and services | (684,757)      |
| Cash paid to employees for services           | (197,991)      |
| Net cash provided by operating activities     | <u>538,021</u> |

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

|                  |                  |
|------------------|------------------|
| Payments to city | <u>(292,387)</u> |
|------------------|------------------|

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

|   |                  |
|---|------------------|
| Acquisition and construction of utility plant             | (216,773)        |
| Principal paid on bonds                                   | (150,000)        |
| Interest paid on bonds                                    | (145,775)        |
| Net cash used in capital and related financing activities | <u>(512,548)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES:

|   |                |
|---|----------------|
| Investments matured or sold               | 37             |
| Interest received                         | 38,301         |
| Sale of resale merchandise                | 5,245          |
| Purchase of resale merchandise            | (21,836)       |
| Release of restricted cash                | 127,047        |
| Purchase of restricted cash               | (2,314)        |
| Net cash provided by investing activities | <u>146,480</u> |

NET DECREASE IN CASH AND CASH EQUIVALENTS

(120,434)

Cash and cash equivalents at beginning of year

327,355

CASH AND CASH EQUIVALENTS AT END OF YEAR

\$ 206,921

(Continued)

ALTA MUNICIPAL UTILITIES  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2008

Exhibit C  
(Continued)

RECONCILIATION OF OPERATING INCOME TO CASH  
PROVIDED BY OPERATING ACTIVITIES:

|   |                   |
|---|-------------------|
| Operating income  | \$ 290,537        |
| Adjustments to reconcile operating income to cash provided by operations: |                   |
| Depreciation and amortization   | 358,300           |
| Changes in assets and liabilities:  |                   |
| Increase in accounts receivable   | (117,807)         |
| Increase in inventory   | (2,724)           |
| Increase in prepaid expenses  | (14,446)          |
| Decrease in deferred debits   | 3,740             |
| Increase in accounts payable  | 2,963             |
| Increase in other liabilities   | <u>17,458</u>     |
| Total adjustments   | <u>247,484</u>    |
| Net cash provided by operating activities                                 | <u>\$ 538,021</u> |

SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITY

During the year ended December 31, 2008, the Utility paid interest of \$61,225 on the 2005 revenue refunding notes with interest earnings in the bond escrow account. The Utility also paid off the 2000 revenue bonds with \$1,430,000 held in the bond escrow account.

The accompanying notes are an integral part of this statement.

ALTA MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Alta Municipal Utilities is a component unit of City of Alta. The Mayor appoints the trustees of the Utility subject to approval by the City Council. The City Council also approves the Utility's operating budget.

Alta Municipal Utilities distributes electric energy and water to consumers in Alta, Iowa. Sales of water and electricity are billed on the twenty-fifth of each month for usage through the fifteenth of the month. As has been done in prior years, an unbilled receivable in the amount of \$67,436 has been recorded for the period December 15 through December 31. Alta Municipal Utilities is billed by their suppliers on a calendar month basis.

The Utility's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standard Board.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reporting Entity

For financial reporting purposes, Alta Municipal Utilities has included all funds, organizations, agencies, boards, commissions, and authorities. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the Utility. Alta Municipal Utilities has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The accounts of Alta Municipal Utilities are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

ALTA MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Measurement Focus and Basis of Accounting - (Continued)

The Utility applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash, Investments, and Cash Equivalents - Investments are carried at cost which approximates market value. For the purpose of reporting cash flows, cash and cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Inventories - Inventories are stated at the lower of cost or replacement value. Cost is determined on a weighted average method.

Utility Plant - Utility plant is stated at cost. Cost of labor, materials, supervision, and other costs incurred making improvements and replacements to the system, except minor replacements, are charged to the plant accounts while such costs incurred in making normal repairs, minor replacements, and maintaining the assets in efficient operating condition are charged to expense.

Provisions for depreciation of generating, transmission, and distribution plant are computed on a straight-line basis employing a group method. The original costs of assets retired (not constituting the sale of an operating unit or system) together with the costs of removal less salvage are charged to the related accumulated depreciation accounts. In accounting for the sale of operating units or systems, gains or losses are reflected in net revenue.

Provisions for depreciation of general plant are computed on a straight-line basis employing the unit depreciation method. The original cost of property retired is removed from the general plant accounts and the related accumulated depreciation accounts are charged for the depreciation taken to date. Gain or loss is recognized to the extent that the salvage value of the assets retired exceeds or falls short of the remaining book value of the assets retired.

Amortization - The cost of acquiring a portion of the common transmission system is being amortized over the remaining useful life of the assets.

Legal fees and other expenses associated with the issuance of the electric revenue notes are being amortized on the straight-line method over the term of the bonds. Amortization charged to expense in 2008 was \$3,226.

Compensated Absences - Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The Utility's liability for accumulated vacation has been computed based on rates of pay in effect at December 31, 2008.

ALTA MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Budgets and Budgetary Accounting – The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2008 expenses did not exceed the amount budgeted.

2. DEPOSITS

The Utility's deposits in banks at December 31, 2008, were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

The Utility had no investments meeting the disclosure requirements of Governmental Auditing Standards Board Statement Number 3, as amended by Statement 40.

3. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2008 was as follows:

|  | Beginning<br>Balance | Additions<br>and<br>Transfers In | Deletions and<br>Transfers Out | Ending<br>Balance   |
|--|----------------------|----------------------------------|--------------------------------|---------------------|
| Capital assets not being depreciated:        |                      |                                  |                                |                     |
| Land   | \$ 70,913            | \$ -                             | \$ -                           | \$ 70,913           |
| Construction in progress                     | <u>5,800</u>         | <u>-</u>                         | <u>(5,800)</u>                 | <u>-</u>            |
| Total capital assets not being depreciated   | <u>76,713</u>        | <u>-</u>                         | <u>(5,800)</u>                 | <u>70,913</u>       |
| Capital assets being depreciated:            |                      |                                  |                                |                     |
| Infrastructure                               | 5,771,351            | 174,035                          | (1,169)                        | 5,944,217           |
| Buildings and improvements                   | 836,522              | 2,820                            | -                              | 839,342             |
| Equipment                                    | <u>2,113,790</u>     | <u>54,223</u>                    | <u>-</u>                       | <u>2,168,013</u>    |
| Total capital assets being depreciated       | 8,721,663            | 231,078                          | (1,169)                        | 8,951,572           |
| Less accumulated depreciation                | <u>4,434,357</u>     | <u>355,626</u>                   | <u>(1,225)</u>                 | <u>4,788,758</u>    |
| Total capital assets being depreciated - net | <u>4,287,306</u>     | <u>(124,548)</u>                 | <u>56</u>                      | <u>4,162,814</u>    |
| Capital assets - net                         | <u>\$ 4,364,019</u>  | <u>\$ (124,548)</u>              | <u>\$ (5,744)</u>              | <u>\$ 4,233,727</u> |

ALTA MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

4. ELECTRIC REVENUE BONDS

Following is a summary of changes in the electric revenue bonds for the year ended December 31, 2008:

|                               | Balance<br><u>December 31, 2007</u> | <u>Issued</u> | <u>Paid</u>  | Balance<br><u>December 31, 2008</u> |
|-------------------------------|-------------------------------------|---------------|--------------|-------------------------------------|
| 2000 Electric revenue bonds   | \$ 1,510,000                        | \$ -          | \$ 1,510,000 | \$ -                                |
| 2003 Electric revenue bonds   | 1,350,000                           | -             | 70,000       | 1,280,000                           |
| 2005 Electric refunding notes | <u>1,465,000</u>                    | <u>-</u>      | <u>-</u>     | <u>1,465,000</u>                    |
| Subtotal                      | 4,325,000                           | -             | 1,580,000    | 2,745,000                           |
| Less: Current maturities      | (1,580,000)                         |               |              | (185,000)                           |
| Unamortized discount          | (46,754)                            |               |              | (26,590)                            |
| Unamortized refunding charges | <u>-</u>                            |               |              | <u>(21,762)</u>                     |
|                               | <u>\$ 2,698,246</u>                 |               |              | <u>\$ 2,511,648</u>                 |

Annual debt service requirements to maturity for revenue bonds are as follows:

| Year Ending<br><u>December 31,</u> | 2003<br><u>Revenue Notes</u> |                   | 2005 Revenue<br><u>Refunding Notes</u> |                   | <u>Total</u>        |                   |
|------------------------------------|------------------------------|-------------------|--|-------------------|---------------------|-------------------|
|                                    | <u>Principal</u>             | <u>Interest</u>   | <u>Principal</u>                       | <u>Interest</u>   | <u>Principal</u>    | <u>Interest</u>   |
| 2009                               | \$ 75,000                    | \$ 53,318         | \$ 110,000                             | \$ 61,225         | \$ 185,000          | \$ 114,543        |
| 2010                               | 75,000                       | 50,955            | 115,000                                | 57,100            | 190,000             | 108,055           |
| 2011                               | 80,000                       | 48,442            | 120,000                                | 52,730            | 200,000             | 101,172           |
| 2012                               | 85,000                       | 45,603            | 120,000                                | 48,050            | 205,000             | 93,653            |
| 2013                               | 90,000                       | 42,458            | 125,000                                | 43,250            | 215,000             | 85,708            |
| 2014-2018                          | 500,000                      | 155,515           | 720,000                                | 132,223           | 1,220,000           | 287,738           |
| 2019-2021                          | <u>375,000</u>               | <u>36,520</u>     | <u>155,000</u>                         | <u>6,975</u>      | <u>530,000</u>      | <u>43,495</u>     |
|                                    | <u>\$ 1,280,000</u>          | <u>\$ 432,811</u> | <u>\$ 1,465,000</u>                    | <u>\$ 401,553</u> | <u>\$ 2,745,000</u> | <u>\$ 834,364</u> |

The resolutions providing for the issuance of revenue bonds include the following provisions:

- A. The bonds will only be redeemed from the future earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to electric revenue sinking account for the purpose of making the bond principal and interest payments when due.
- C. The Utility is to establish a separate Bond Reserve Account into which monthly deposits of 25% of sinking fund deposits, to a maximum of \$146,650 for the 2003 bond issue and \$146,500 for the 2005 bond issue, shall be set apart.
- D. Additional monthly transfers of \$2,000 to the Bond Improvement Fund shall be made until the sum of \$100,000 has been accumulated for each bond issue. These accounts are restricted for the purpose of paying for necessary repairs, improvements, and extension to the system.

ALTA MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

4. ELECTRIC REVENUE BONDS - (Continued)

In December 2005 the Utility issued \$1,465,000 of revenue refunding notes to advance refund the 2000 revenue notes under a crossover refunding arrangement. The proceeds of the 2005 refunding notes were placed in an irrevocable trust fund to provide for the future debt service of the 2000 notes. Interest on the 2005 refunding notes was paid from the escrow account through December 1, 2008, on which date the 2000 notes were called for redemption and also paid from the escrow account. As a result of the advance refunding, the Utility achieved a debt service savings of \$192,691.

5. RESTRICTED NET ASSETS

Net assets have been restricted in amounts necessary to fund the following specific reserves:

|                              | <u>2008</u>       |
|------------------------------|-------------------|
| Restricted:                  |                   |
| CTS Improvement account      | \$ 93,611         |
| NIMECA – Emissions account   | 1,789             |
| Bond retirement sinking fund | 24,962            |
| Bond reserve fund            | 194,916           |
| Bond improvement fund        | <u>200,000</u>    |
|                              | <u>\$ 515,278</u> |

6. COMMON TRANSMISSION SYSTEM – CAPITAL IMPROVEMENT FUND

This account is currently used to record funds deposited with NIMECA to be used for future construction and/or maintenance of the common transmission.

7. PENSION AND RETIREMENT BENEFITS

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.10% (3.90% through June 30, 2008) of their annual covered salary and the Utility is required to contribute 6.35% (6.05% through June 30, 2008) of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ending December 31, 2008, 2007, and 2006, were \$12,275, \$11,591, and \$11,008, respectively, equal to the required contribution for each year.

8. RISK MANAGEMENT

Alta Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

ALTA MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008

9. SIGNIFICANT AREA CONCENTRATION OF CREDIT RISK

The Utility extends credit to its customers on terms no more favorable than standard terms of the industry it serves. A substantial portion of the Utility's customers are located in Alta, Iowa. The Utility's credit risks have been anticipated and management believes that adequate provision has been made for doubtful accounts.

10. RELATED PARTY TRANSACTION

Pursuant to Iowa Code Chapter 28E.18 concerning the joint use of facilities through sharing agreements, the Alta Municipal Utilities and the Alta Municipal Broadband Communications Utility have entered into an agreement whereby the Communications Utility shall pay the Electric Utility the sum of \$110,000 (accrued monthly) on or before the first day of May each year for the use of a portion of the Communications distribution system for the previous calendar year. The term of this agreement is forty years and the payments are due May 1 of each year. In February 2008, the amount was adjusted to \$80,000 to be effective January 1, 2008.

11. SUBSEQUENT EVENT

Effective January 1, 2009, the electric utility transferred ownership of the underground fiber and coaxial cable communications system to Alta Municipal Broadband Communication Utility. The net depreciated cost of that system was \$595,862 at the time of transfer. The electric utility has free use of this system for such time as bonds or other indebtedness regarding or arising out of the construction and purchase of the system remain outstanding or forty years, whichever comes first.



## REQUIRED SUPPLEMENTARY INFORMATION

ALTA MUNICIPAL UTILITIES  
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS – BUDGET AND ACTUAL  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED DECEMBER 31, 2008

|                                  | <u>Actual</u>       | <u>Budgeted<br/>Amount</u> | <u>Actual to<br/>Budget<br/>Variance</u> |
|----------------------------------|---------------------|----------------------------|--|
| Revenues:                        |                     |                            |  |
| Use of money and property        | \$ 103,013          | \$ 55,000                  | \$ 48,013                                |
| Charges for services             | 1,497,750           | 1,593,400                  | (95,650)                                 |
| Miscellaneous                    | <u>44,413</u>       | <u>25,956</u>              | <u>18,457</u>                            |
|                                  | 1,645,176           | 1,674,356                  | (29,180)                                 |
| Expenses                         | <u>1,471,423</u>    | <u>1,961,354</u>           | <u>(489,931)</u>                         |
| Net                              | 173,753             | (286,998)                  | 460,751                                  |
| Net assets, beginning of year    | 3,844,963           | 3,271,509                  | 573,454                                  |
| Residual equity transfer to City | <u>(292,387)</u>    | <u>(42,000)</u>            | <u>(250,387)</u>                         |
| Net assets, end of year          | <u>\$ 3,726,329</u> | <u>\$ 2,942,511</u>        | <u>\$ 783,818</u>                        |

See accompanying independent auditor's report.

ALTA MUNICIPAL UTILITIES  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
DECEMBER 31, 2008

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

The Utility's budget was not amended during the year and expenses did not exceed the amount budgeted.

HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.  
KEITH C. GERMANN, C.P.A.  
RICHARD R. MOORE, C.P.A.  
WESLEY E. STILLE, C.P.A. (RETIRED)  
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W.J. HUNZELMAN, C.P.A. 1921-1997

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Board of Trustees  
Alta Municipal Utilities  
Alta, Iowa

The primary purpose of our examination was to formulate an opinion on the financial statements taken as a whole. The additional information presented in the following pages was prepared on the basis of audit procedures applied in our examination of the financial statements. This information, while not considered necessary for fair presentation of the financial statements is, in our opinion, fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

July 14, 2009

*Hunzelman, Putzier & Co.*

ALTA MUNICIPAL UTILITIES  
SCHEDULE OF MUNICIPAL PLANT  
DECEMBER 31, 2008

Schedule 1

|                                   | Utility Plant                 |                   |                  |                                 | Accumulated Depreciation      |                   |                  |                                 | Depreciation Rates<br>In Percent |
|-----------------------------------|-------------------------------|-------------------|------------------|---------------------------------|-------------------------------|-------------------|------------------|---------------------------------|----------------------------------|
|                                   | Balance<br>January 1,<br>2008 | Additions         | Retire-<br>ments | Balance<br>December 31,<br>2008 | Balance<br>January 1,<br>2008 | Expense           | Retire-<br>ments | Balance<br>December 31,<br>2008 |                                  |
| <u>ELECTRIC PLANT</u>             |                               |                   |                  |                                 |                               |                   |                  |                                 |                                  |
| Land                              | \$ 70,913                     | \$ -              | \$ -             | \$ 70,913                       | \$ -                          | \$ -              | \$ -             | \$ -                            | -                                |
| Buildings                         | 194,647                       | 2,542             | -                | 197,189                         | 143,389                       | 5,859             | -                | 149,248                         | 2.50-6.67                        |
| Transmission plant                | 730,775                       | 30,106            | 1,169            | 759,712                         | 330,968                       | 20,494            | 1,225            | 350,237                         | 2.75                             |
| Walter Scott #4 generating plant  | 1,733,578                     | 40,885            | -                | 1,774,463                       | 21,670                        | 43,851            | -                | 65,521                          | 2.50                             |
| Equipment                         | 625,596                       | -                 | -                | 625,596                         | 521,071                       | 23,641            | -                | 544,712                         | 3.33-10.00                       |
| Distribution lines                | 655,776                       | 37,049            | -                | 692,825                         | 430,782                       | 18,199            | -                | 448,981                         | 3.00-6.67                        |
| Communication distribution system | 2,379,434                     | 2,555             | -                | 2,381,989                       | 1,631,792                     | 154,335           | -                | 1,786,127                       | 2.50-14.29                       |
| Other physical property           | <u>268,034</u>                | <u>259</u>        | <u>-</u>         | <u>268,293</u>                  | <u>207,457</u>                | <u>5,230</u>      | <u>-</u>         | <u>212,687</u>                  | 10.00-20.00                      |
| Electric plant in service         | <u>6,658,753</u>              | <u>113,396</u>    | <u>1,169</u>     | <u>6,770,980</u>                | <u>3,287,129</u>              | <u>271,609</u>    | <u>1,225</u>     | <u>3,557,513</u>                |                                  |
| <u>WATER PLANT</u>                |                               |                   |                  |                                 |                               |                   |                  |                                 |                                  |
| Buildings                         | 641,875                       | 278               | -                | 642,153                         | 337,700                       | 22,723            | -                | 360,423                         | 3.00-10.00                       |
| Equipment                         | 1,085,862                     | 53,705            | -                | 1,139,567                       | 532,881                       | 50,486            | -                | 583,367                         | 2.00-10.00                       |
| Distribution lines                | 271,788                       | 63,440            | -                | 335,228                         | 185,593                       | 5,820             | -                | 191,413                         | 5.00-10.00                       |
| Other physical property           | <u>134,298</u>                | <u>259</u>        | <u>-</u>         | <u>134,557</u>                  | <u>91,054</u>                 | <u>4,988</u>      | <u>-</u>         | <u>96,042</u>                   | 10.00                            |
| Water plant in service            | <u>2,133,823</u>              | <u>117,682</u>    | <u>-</u>         | <u>2,251,505</u>                | <u>1,147,228</u>              | <u>84,017</u>     | <u>-</u>         | <u>1,231,245</u>                |                                  |
| Total plant in service            | 8,792,576                     | 231,078           | 1,169            | 9,022,485                       | 4,434,357                     | 355,626           | 1,225            | 4,788,758                       |                                  |
| Construction in progress          | <u>5,800</u>                  | <u>(5,800)</u>    | <u>-</u>         | <u>-</u>                        | <u>-</u>                      | <u>-</u>          | <u>-</u>         | <u>-</u>                        |                                  |
| Total Utility Plant               | <u>\$ 8,798,376</u>           | <u>\$ 225,278</u> | <u>\$ 1,169</u>  | <u>\$ 9,022,485</u>             | <u>\$ 4,434,357</u>           | <u>\$ 355,626</u> | <u>\$ 1,225</u>  | <u>\$ 4,788,758</u>             |                                  |

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees  
Alta Municipal Utilities  
Alta, Iowa

We have audited the accompanying financial statements of Alta Municipal Utilities as of and for the year ended December 31, 2008, and have issued our report thereon dated July 14, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Utility's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Utility's financial statements that is more than inconsequential will not be prevented or detected by the Utility's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Utility's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A), (B), and (C) are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2008, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Utility's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utility's responses, we did not audit the responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Alta, Iowa, and other parties to whom Alta Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

July 14, 2009

*Humphreys, Pitzler & Co.*

ALTA MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2008

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The Utility will continue to cross-train office employees in an attempt to alleviate the problem. This problem may never be one hundred percent cured due to the limited number of employees to perform the duties.

Conclusion - Response accepted.

- (B) Electronic Data Processing Systems - During our review of internal control, the existing control activities in the Utility's computer-based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the Utility's computer-based systems were noted:

The Utility does not have written policies for:

- password privacy and confidentiality,
- requiring password changes because software does not require the user to change logins/passwords periodically,
- ensuring that only software licensed to the Utility is installed on computers,
- requiring user profiles to help limit access to programs to those who have a legitimate need,

Also, the Utility does not have a written disaster recovery plan.

Recommendation - The Utility should develop written policies addressing the above items in order to improve the Utility's control over computer based systems and a written disaster recovery plan should be developed.



ALTA MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2008

Part I: Findings Related to the Financial Statements: (Continued)

SIGNIFICANT DEFICIENCIES: (Continued)

(B) Electronic Data Processing Systems - (Continued)

Response – The Utility is trying to locate a written policy that, with modifications, will fit our application. The Utility will continue to pursue options to develop a written policy.

Conclusion – Response accepted.

(C) Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for Utility board members to make management decisions, reporting financial data reliably in accordance with U.S. generally accepted accounting principles (GAAP) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable GAAP financial statements.

Response – Management was hired because of their expertise in utility operations inside and outside of the office, and their ability to work with specialized professional people. The Utility has no plans of hiring additional people or replacing the existing staff. Therefore, the Utility will place their trust in the ability of the auditing firm to prepare year-end financial statements.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting:

- (1) Budget - Utility expenses during the year ended December 31, 2008, did not exceed the amounts budgeted.
- (2) Questionable Expenditures - We noted no expenditures which may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (3) Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.

ALTA MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2008

Part II: Other Findings Related to Statutory Reporting: - (Continued)

- (4) Business Transactions - We noted the following business transactions between the Utility and Utility officials:

| <u>Name, Title and<br/>Business Connection</u>           | <u>Transaction Description</u> | <u>Amount</u> |
|--|--------------------------------|---------------|
| Ron Gullickson, Trustee<br>Owner of Gully's Lawn Service | Parts and supplies             | \$ 707        |

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Trustee Gullickson do not appear to represent a conflict of interest since the total was less than \$2,500 during the year.

- (5) Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- (6) Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but were not.
- (7) Revenue Bonds - The Utility has established the sinking and reserve accounts required by the electric revenue bond resolution.
- (8) Deposits and Investments - We noted no instances of non-compliance with the deposit and the investment provisions of Chapter 12B and 12C of the Code of Iowa.